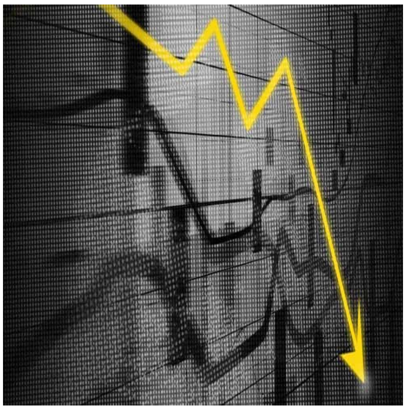

# Warren Buffett: A Market Crash Is Inevitable!

## Description

The markets continue to remain volatile due to uncertainties surrounding COVID-19. Several countries in Europe have reported an increase in the number of daily coronavirus cases. There is a chance that fears of a dreaded second wave of infections might come true and impact Canadians as well.



This does not bode well for the stock market, which is already trading at a premium, according to the Warren Buffett Indicator. Equity markets were decimated between February and March this year when the S&P 500 lost close to 36%. However, the V-shaped recovery has surprised investors and analysts, given the massive fall in global GDP and high unemployment numbers.

The Warren Buffet Indicator, which measures the GDP-to-market cap ratio, stands at 176.4% south of the border, which shows the markets are overvalued by 76.4%. If the Warren Buffett ratio is over 100%, the markets are considered overvalued, and vice-versa.

This multiple for Canada is also high at about 127%. During the financial crisis of 2008-09, the Warren Buffett ratio for Canada stood at 110% (before the crash) and touched a low of 56%. Canada's unemployment rates were less than 9% during the last crash, while this figure is 10.2% as of August 2020.

There is a good chance that Warren Buffett is also bearish on the equity markets. He has been a net seller of equities this year, and **Berkshire Hathaway** ended Q2 with a monstrous $146 billion in cash.

Buffett exited the airline sector and has also sold off positions in several banking companies. However, he increased stake in Canada's energy giant **Suncor** and surprised Wall Street with an investment in gold mining company **Barrick Gold** (TSX:ABX)(NYSE:GOLD).

Gold is considered a defensive investment and is inversely related to the equity market. So, will the Oracle of Omaha be proven right once again?

## Warren Buffett has a 1.2% stake in Barrick Gold

According to Berkshire Hathaway's 13F filings, the company owns 20.9 million shares of Barrick Gold worth $776 million, indicating a 1.2% stake in the gold mining giant. Barrick Gold is the second-largest publicly traded gold mining company in terms of market cap, and it seems like a lustrous buy right now, especially if you are bracing for a market crash.

In the second quarter of 2020, Barrick reported gold production of 1.15 million ounces and remains on track to achieve its production forecast of 4.8 million ounces for the year. The rising prices of the yellow metal helped the company generate operating cash flow of US$1.03 billion, up 138% year over year.

Comparatively, Barrick's free cash flow rose 850% to US$522 million. This helped the company reduce total debt by 11% in Q2.

Given the low interest rates, there is a good chance for gold prices to move higher by the end of 2020, which suggests that investing in gold mining companies makes perfect sense. Further, quantitative easing measures and billions of dollars spent in federal benefits might weaken the U.S. dollar, and this has historically increased demand for the yellow metal.

Barrick Gold stock is already up 55% in 2020 and has returned 330% in the last five years. Analysts tracking the stock expect it to gain another 21% in the next 12 months.



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